



November 26, 2014

A Letter from the CEO

Dear Stockholders,

Our (unaudited) third quarter financial results are now known and it is time to bring you up-to-date. The purpose of these quarterly letters is to briefly discuss our results along with selected events that have occurred since the last letter. For ease of comparison, I use the same format each quarter which is less detailed than my annual letter that is published after Moss Adams LLP completes our annual audit in the second quarter of the following year. This letter is divided into four parts:

- 1) Highlights of activities since my last letter
- 2) Our Q3 2014 unaudited financial results
- 3) Strategic evaluation and commentary
- 4) Updates.

1. Highlights of activities since my August letter:

We have continued to make progress with home shopping distribution. Apothederm® products and several product combination kits are currently on ShopHQ.com (http://www.shophq.com/b/beauty/apothederm-skincare/?icid=DN-Beauty-Brand_2-1-ApothedermSkincare) and we are working with ShopHQ to obtain an on-air segment to showcase the brand and to message the SmartPeptides® technology story to a larger consumer audience. In addition, we continue market direct-to-consumer through our own ecommerce site.

In October, we exhibited Apothederm at the International Spa Association (ISPA). This is a major industry tradeshow and there was good interest in the product line.

Our active ingredient distribution partners are continuing to promote peptides in the personal care and OTC markets.

2. The Q3 2014 unaudited financial results:

The total revenue for the third quarter of 2014 was \$554,000 compared to \$442,000 for the same period in 2013. Gross profits for the third quarter of 2014 were \$419,000 compared to \$370,000 for the same period in 2013. Operating expenses for the third quarter of 2014 were \$766,000 compared to \$691,000 for the third quarter of 2013. As a result, our operating losses for the third quarter of 2014 were \$347,000 compared to operating losses of \$321,000 in the third quarter of 2013.

Here are four significant items along with the results from one year earlier (000):

<i>Item</i>	<i>3Q2014</i>	<i>3Q2013</i>
<i>Revenue</i>	<i>\$554</i>	<i>\$442</i>
<i>Gross Profits</i>	<i>\$419</i>	<i>\$370</i>
<i>Operating Expenses</i>	<i>\$766</i>	<i>\$691</i>
<i>Operating profit (loss)</i>	<i>(\$347)</i>	<i>(\$321)</i>

Beginning with this report, I am removing the cash flow metric because it fluctuates based on the timing of our largest quarterly payments. In the past many years, we have collected almost 100% of our accounts receivables (A/R), and, as a result, management uses the following two metrics to gage our performance:

Cash + A/R – A/P as of 9/30/14	=	\$900K
Losses for Operations excluding common stock expense	=	\$258K.

Beginning with the next letter, I will add these two metrics to the table above.

3. Strategic Evaluation and Commentary:

The strategic evaluation of the company falls into two general categories, which unlike quarterly results do not vary dramatically quarter-to-quarter:

Revenue

Our most important revenues are generated from our high margin licensing agreements and consumer product sales. Our licensing revenues are royalty-based and, therefore, carry no cost of goods. While royalty payments appear to be “pure profit,” we must measure this royalty income against the costs required to support our ongoing patent obligations and the development/production costs required to support our licensing partners and generate new product opportunities.

Because we have more control over our high-margin branded product sales, we are placing a great deal of emphasis on developing this business. Our Apothederm® line of products continues to expand and we encourage you to visit www.Apothederm.com for more information.

The best measure of our financial progress is to look at our gross profits and our operating losses over the past 12 months as compared the previous 12 months. Our gross profits and operating losses respectively for the past 12 months are \$1.43M and \$1.67M as compared to \$1.47M and \$1.75M for the previous 12 months.

Company R&D

The company's research and development efforts remain focused on generating peptides that have near term commercialization potential as well as longer term pipeline opportunities. During the quarter, we continued to grow our intellectual property portfolio. We currently own over 110 issued patents with many more pending. Since the last update, we have received additional notifications that new patents are about to issue. In addition, Dr. Lijuan Zhang, our Senior Director of R&D Innovation gave a presentation at the Boulder Peptide Symposium. (<http://boulderpeptide.org/2014-presenters/>)

Updates

This section of the letter is where I discuss various timely updates that help give our investors additional insight into our company. Since some of the topics serve as reminders, they are repeated in each letter:

We are continuing to tweak the content of this letter to give you a better idea of our progress. As I stated in Section 2 above, we have replaced the cash flow line with two additional cash flow related metrics that are used by management internally.

The demand for high quality peptides from our partners increased substantially in the past year. As a result, we are beginning to add to our R&D staff to deliver innovation faster to market.

Let me close by saying that we remain optimistic that we will see substantial gross product growth in the near future without corresponding growth in operating expenses.

Sincerely,



R. Stephen Beatty
President and Chief Executive Officer



Evonik, the creative industrial group from Germany, is one of the world leaders in specialty chemicals. Profitable growth and a sustained increase in the value of the company form the heart of Evonik's corporate strategy. Its activities focus on the key megatrends health, nutrition, resource efficiency and globalization. Evonik benefits specifically from its innovative prowess and integrated technology platforms.

Evonik is active in over 100 countries around the world. In fiscal 2013 more than 33,500 employees generated sales of around €12.9 billion and an operating profit (adjusted EBITDA) of about €2.0 billion.



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